

Essential Utilities Inc., formerly Aqua America, Inc. is a publicly traded water and wastewater utility holding company with operating subsidiaries serving approximately five million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Kentucky, West Virginia and Virginia. In addition to its water/wastewater utilities, the company purchased the Peoples natural gas distribution utility in March 2020. The combined company has roughly 2,000 employees.

Analyst's Notes

Analysis by Angus Kelleher-Ferguson, June 18, 2021

ARGUS RATING: BUY

- Reiterating BUY and \$55 price target
- Essential Utilities recently reported first-quarter results that exceeded analyst's expectations. On May 6, the company reported GAAP and non-GAAP EPS of \$0.72 per share, up from non-GAAP EPS of \$0.60 in 1Q20. The stronger results reflected contributions from Peoples, the natural gas utility that was acquired in March 2020.
- We are maintaining our 2021 EPS forecast of \$1.68 from \$1.66, implying 6% growth this year. We are maintaining our 2021 EPS forecast of \$1.68. We look for continued gains in 2022 and are also reiterating our estimate of \$1.80 per share, which assumes 7% growth from our 2021 forecast.
- The company has a long record - 75 years - of paying dividends. The current yield is about 2.1%.

INVESTMENT THESIS

BUY-rated Essential Utilities Inc. (NYSE: WTRG) has a solid business model, a history of steady earnings growth, and a growing dividend. We think the company will continue to provide shareholders with solid risk-adjusted returns. Essential stands to benefit from aging water infrastructure that, according to industry observers, will soon require substantial investment to upgrade to safe levels. We also expect increased revenue and earnings following the March 2020 acquisition of Peoples, a gas distribution utility. We note that Essential has operations in states such as North Carolina and Texas, where population growth is above the national average. The company also benefits from an experienced management team and balanced rate regulation. Our 12-month price target is \$55.

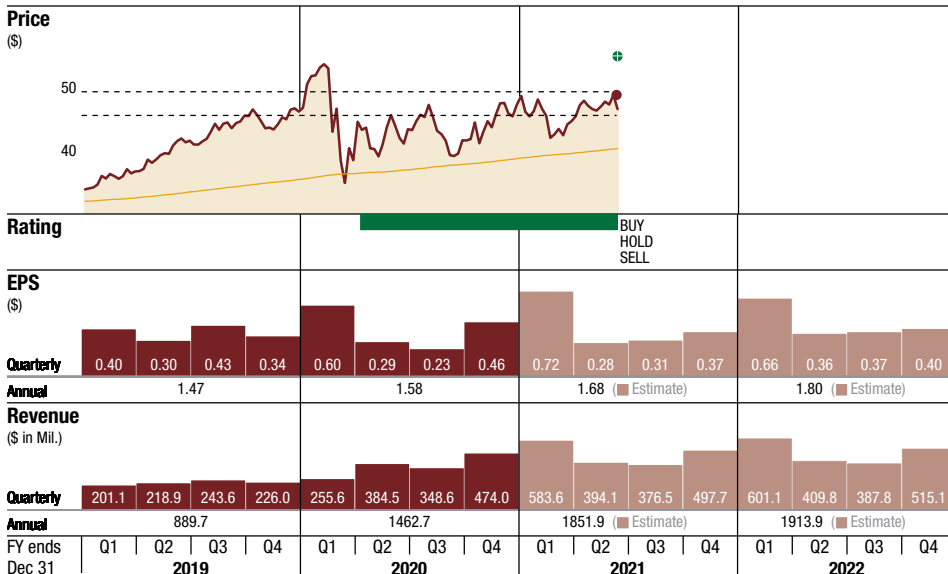
RECENT DEVELOPMENTS

WTRG shares have outperformed the S&P over the last three months, climbing 12% while the index has climbed 7%. The stock has underperformed over the past year, however, with a gain of 11% compared to a 35% increase for the market. The shares have roughly matched the performance of the Utility industry ETF IDU over the past year, but

Market Data

Pricing reflects previous trading week's closing price.

— 200-Day Moving Average — Target Price: \$55.00 — 52 Week High: \$49.36 — 52 Week Low: \$45.63 — Closed at \$48.86 on 6/11



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 72% Buy, 28% Hold.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$46.63
Target Price	\$55.00
52 Week Price Range	\$38.28 to \$49.36
Shares Outstanding	245.64 Million
Dividend	\$1.00

Sector Overview

Sector	Utility
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	2.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	55.2%
Return on Equity	8.6%
Net Margin	23.3%
Payout Ratio	0.62
Current Ratio	0.63
Revenue	\$1.79 Billion
After-Tax Income	\$416.76 Million

Valuation

Current FY P/E	27.76
Prior FY P/E	29.51
Price/Sales	6.40
Price/Book	2.38
Book Value/Share	\$19.58
Market Capitalization	\$11.45 Billion

Forecasted Growth

1 Year EPS Growth Forecast	6.33%
5 Year EPS Growth Forecast	6.00%
1 Year Dividend Growth Forecast	7.22%

Risk

Beta	1.05
Institutional Ownership	72.61%

Analyst's Notes...Continued

have outperformed over longer time horizons. The beta on WTRG shares is 0.53.

Essential Utilities recently reported first-quarter results that exceeded analyst's expectations. On May 6, the company reported GAAP and non-GAAP EPS of \$0.72 per share, up from non-GAAP EPS of \$0.60 in 1Q20. The stronger results reflected contributions from Peoples, the natural gas utility that was acquired in March 2020. Higher volume and favorable rates were secondary drivers, with an increase in Other expenses partially offsetting the strength. Revenue rose 128% to \$586 million, with Peoples accounting for substantially all of this growth. Water usage per customer increased a modest 2% year-over-year as customers spent more time at home.

In March 2020, the company closed on the acquisition of Peoples Natural Gas for \$4.3 billion in cash, including the assumption of \$1.1 billion in debt. (The Canada Pension Plan invested \$750 million into the company to help it close the deal.) Peoples serves about 740,000 customers in Pennsylvania, Kentucky, and West Virginia. The deal is partly synergistic, given that Essential was already providing water service to Peoples. Additionally, Peoples and Essential Water are the largest players in their respective industries in Pennsylvania, which is the company's biggest market.

Essential stands to benefit from aging water infrastructure that, according to industry observers, will soon require substantial investment. In August 2020, the American Society of Civil Engineers released a report detailing chronic underinvestment in

drinking water and wastewater systems. The report highlighted the difficulties plaguing legacy systems, with many treatment facilities nearing the end of their design lives of 75-100 years. More recently, the \$2.3 trillion Biden infrastructure bill earmarked roughly \$111 billion over the next ten years to modernize water infrastructure. The bill still has a long way to go, and a size reduction looks increasingly more likely, but it remains a positive in any event. Looking ahead, we expect Essential to benefit from both new investment in water infrastructure and upgrades of existing systems.

Along with the 1Q21 earnings release, management reiterated its 2021 guidance calling for EPS of \$1.64-\$1.69. Management also stated that it expects compound annual earnings growth of 5%-7% through 2023.

EARNINGS & GROWTH ANALYSIS

The company's top-line growth is driven by acquisitions, organic customer count increases, volume increases, and rate increases. In 1Q21, revenue was up substantially due to inorganic growth from the March 2020 acquisition of Peoples. Excluding the impact of Peoples, revenue rose 4.7%. The growth in organic water utility revenue reflected better rates and higher volume.

We note that 2Q21 earnings will offer an appropriate year-over-year comp, as the Peoples acquisition will be fully annualized.

On growth, the company pursues a blended strategy of growth

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2016	2017	2018	2019	2020
Revenue	820	810	838	890	1,463
COGS	297	282	308	333	694
Gross Profit	523	527	530	557	768
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	333	334	323	340	435
Interest Expense	81	88	99	100	183
Pretax Income	255	257	178	212	265
Income Taxes	21	17	-14	-13	-20
Tax Rate (%)	8	7	—	—	—
Net Income	234	240	192	225	285
Diluted Shares Outstanding	178	178	178	216	255
EPS	1.32	1.35	1.08	1.04	1.12
Dividend	0.74	0.79	0.85	0.91	0.97

GROWTH RATES (%)

Revenue	0.7	-1.3	3.5	6.2	64.4
Operating Income	3.8	0.2	-3.2	5.3	27.8
Net Income	16.1	2.4	-19.9	17.0	26.9
EPS	15.8	2.3	-20.0	-3.7	7.7
Dividend	7.7	7.2	7.0	7.0	7.0
Sustainable Growth Rate	4.7	5.2	5.1	-1.1	0.2

VALUATION ANALYSIS

Price: High	\$35.83	\$39.55	\$39.38	\$47.33	\$54.52
Price: Low	\$28.03	\$29.41	\$32.09	\$32.70	\$30.40
Price/Sales: High-Low	7.8 - 6.1	8.7 - 6.5	8.4 - 6.8	11.5 - 7.9	9.5 - 5.3
P/E: High-Low	27.1 - 21.2	29.3 - 21.8	36.5 - 29.7	45.5 - 31.4	48.7 - 27.1
Price/Cash Flow: High-Low	16.9 - 13.2	18.1 - 13.5	18.0 - 14.7	31.3 - 21.6	25.6 - 14.3

Financial & Risk Analysis

FINANCIAL STRENGTH

	2018	2019	2020
Cash (\$ in Millions)	4	1,869	5
Working Capital (\$ in Millions)	-252	1,692	-224
Current Ratio	0.37	6.23	0.63
LT Debt/Equity Ratio (%)	119.4	76.1	118.8
Total Debt/Equity Ratio (%)	127.8	79.8	123.2

RATIOS (%)

Gross Profit Margin	63.2	62.6	52.5
Operating Margin	38.6	38.2	29.7
Net Margin	22.9	25.2	19.5
Return On Assets	2.9	2.8	2.5
Return On Equity	9.7	7.6	6.7

RISK ANALYSIS

Cash Cycle (days)	-33.7	-36.4	-13.9
Cash Flow/Cap Ex	0.7	0.6	0.6
Oper. Income/Int. Exp. (ratio)	2.8	2.7	2.4
Payout Ratio	58.5	59.5	120.5

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Analyst's Notes...Continued

through acquisitions and organic growth from its core operations (core ops include its regulated water utility and, more recently, a gas utility.) A key aspect of its acquisition strategy involves purchasing municipal water or wastewater utility assets. As of quarter end, there were seven pending acquisitions underway mixed between water and wastewater. Across the seven pending acquisitions, total purchase price came to \$450.5 million and customer count totaled 231,000 dwelling units.

In 2020, Essential posted adjusted EPS of \$1.58, up from \$1.47 in 2019. Revenue of \$1.46 billion rose from \$890 million in 2019.

We are maintaining our 2021 EPS forecast of \$1.68. We look for continued gains in 2022 and are also reiterating our estimate of \$1.80 per share, which assumes 7% growth from our 2021 forecast. Our long-term earnings growth rate forecast is 6%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for Essential Utilities is Medium, the midpoint on our five-point scale. Our three main criteria are debt levels, fixed-cost coverage, and profitability. Moody's rates the company's debt at Baa2 with a stable outlook and S&P rates it as A.

At the end of the quarter, WTRG had \$18 million in cash and cash equivalents, up from \$5 million at the end of 2020. The company had \$5.8 billion in debt, up from \$5.7 billion at the end of 2020. The total debt/total capitalization ratio was 54%, below the peer average of 58%. During the trailing twelve months, the

interest coverage ratio was 4.4-times, below the peer average of 6.2. The company has \$724 million in borrowing capacity on various credit facilities.

In August 2020, the Essential Utilities board approved a dividend hike. The quarterly cash dividend is now \$0.2507, up from \$0.2343. The annual distribution of roughly \$1.00 yields about 2.1%. WTRG has grown its dividend at a 7% average annual rate over the last five years. It has paid consecutive quarterly dividends for 75 years, and has raised the dividend 30 times in the past 29 years. Our 2021 dividend estimate is \$1.04 and our 2022 estimate is \$1.12.

MANAGEMENT & RISKS

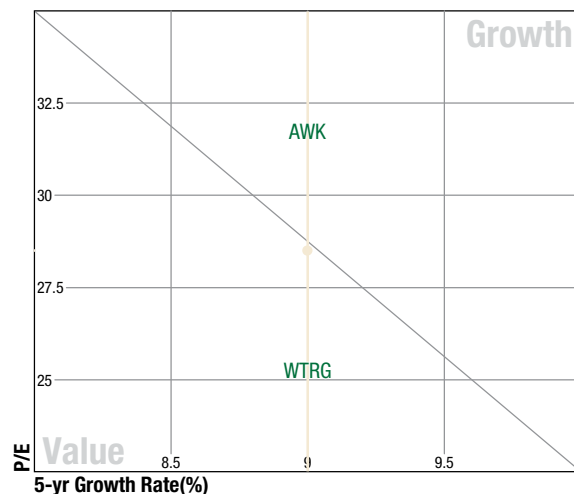
Christopher Franklin has been the company's CEO since July 2015, and is also chairman of the board. Mr. Franklin is a 25-year company veteran, and previously served as president and COO of its regulated operations. The COO is Richard Fox, who has served in the role since 2015, and the CFO is Daniel J. Schuller, who has been in the position since 2018. In August 2020, management announced that Mike Huwar would succeed Joe Gregorini as president of Peoples. Mr. Huwar has more than 30 years of industry experience and an established reputation with Pennsylvania regulators.

The U.S. water industry is fragmented, with more than 53,000 individual water systems. Many of these systems cannot afford to meet the EPA's increasingly stringent standards, and have put

Peer & Industry Analysis

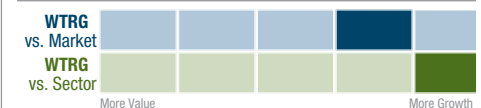
The graphics in this section are designed to allow investors to compare WTRG versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how WTRG stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how WTRG might fit into or modify a diversified portfolio.

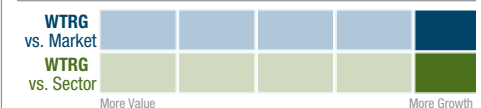


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
AWK	American Water Works Co. Inc.	25,104	9.0	31.7	18.8	10.1	BUY
WTRG	Essential Utilities Inc	10,417	9.0	25.3	19.5	7.1	BUY
Peer Average		17,760	9.0	28.5	19.1	8.6	

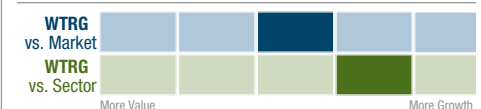
P/E



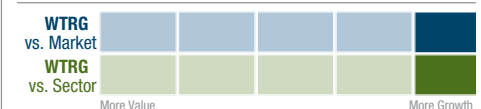
Price/Sales



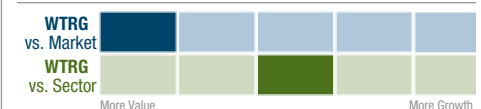
Price/Book



PEG



5 Year Growth



Debt/Capital



Analyst's Notes...Continued

themselves up for sale. Several companies have even sought to be acquired by Essential Utilities. The range of acquisition targets has also grown as cash-strapped municipalities look to monetize their utility assets. We believe that WTRG will be able to acquire additional municipal water systems in the coming years as cities look to raise cash to deal with the impact of the pandemic.

Key risks for water utilities include the effect of adverse weather on revenues, regulatory issues (especially related to construction cost recovery), and potential environmental and safety-related liabilities. In addition, the utility's heavy capital needs create ongoing liquidity risk.

COMPANY DESCRIPTION

Essential Utilities Inc., formerly Aqua America, Inc. is a publicly traded water and wastewater utility holding company with operating subsidiaries serving approximately five million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Kentucky, West Virginia and Virginia. In addition to its water/wastewater utilities, the company purchased the Peoples natural gas distribution utility in March 2020. The combined company has roughly 2,000 employees.

VALUATION

WTRG shares appear attractively valued at current prices near \$49. Over the past 52 weeks, the shares have traded between \$38 and \$49. WTRG trades at 29.0-times our 2021 EPS estimate and at 27.1-times our 2022 forecast. The shares are trading at premiums to electric and gas distribution peers on P/E, price/sales, and price/book, but in line on PEG, reflecting the company's stronger-than-average growth outlook. Compared to a basket of water utility peers, the shares trade at a discount versus the peer average of 33.2. We believe that premiums to electric utility peers are justified by the company's solid long-term fundamentals, and that WTRG shares should trade closer to the peer average of water utility peers. In our view, the company's financial strength, favorable risk profile, visible forward earnings stream, and attractive integrated structure make WTRG a compelling investment. Our target price is \$55, implying a reasonable 2021 PE multiple of 32.7 - still below the water utility peer average.

On June 18, BUY-rated WTRG closed at \$46.63, down \$2.14.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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